

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1095 - HB 1249

April 8, 2021

SUMMARY OF BILL: Allocates one percent of the state sales and use tax to eligible counties and municipalities, as defined in the proposed legislation, for the purpose of funding economic development and infrastructure projects. Requires one percent of such amount to be deposited into the state General Fund to defray the costs of administration.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$12,500,000/FY21-22
\$25,000,000/FY22-23 and Subsequent Years

Increase State Expenditures - \$60,700/FY21-22
\$55,500/FY22-23 and Subsequent Years

Increase Local Revenue – \$12,500,000/FY21-22/Permissive
\$25,000,000/FY22-23 and Subsequent Years/Permissive

Assumptions:

- The proposed legislation requires an amount of state sales and use tax revenue derived from one percent of the state sales and use tax rate imposed pursuant to Tenn. Code Ann. § 67-6-202 on all sales in a special district to be allocated to an eligible county or municipality in a special district that has adopted a resolution or ordinance accepting the apportionment and that meets all other established requirements for the purpose of funding economic development and infrastructure projects.
- This special allocation will not apply to revenue derived from the increases in the sales tax rate from 5.5 percent to 7.0 percent. It is further assumed that the allocation will not apply to sales tax collections derived from cable TV, interstate telecommunication sales, prepaid wireless, additional single article sales tax, transportation equity, and E911 fees.
- According to analysis by the Department of Economic and Community Development, 85 of 95 counties would be eligible for receiving funds under this program.
- The proposed legislation states that all capital outlay projects must receive a determination by the Commissioners of the Departments of Finance and Administration and Economic and Community Development that these projects would be in the best interest of the state.
- Best interest of the state, as defined in the proposed legislation means a determination by the Commissioners of the Departments of Finance and Administration and Economic

and Community Development that these projects are “a result of the of the tax revenue allocation provided in this section and that the economic benefits to this state resulting from the eligible project, outweigh the anticipated amount of the tax revenue allocation.”

- In other sections of code with “best interest of the state” language, the allocation of revenue is being made for entities with known tax liabilities, unlike the proposed legislation which is strictly for municipally owned capital outlay projects such as: roads, courthouses, administrative buildings, sewers, public safety facilities, railroads, seeking state grants, or expenses associated with engineering or legal drafting for these projects, and promotion of a tourism event.
- Because the projects listed in the proposed legislation do not have a direct tax liability being offset, the best interest of the state determination in the proposed legislation would be considered a secondary economic impact, and any economic benefits from these municipally owned projects are considered to be secondary economic impacts.
- It is therefore assumed that the reallocation of taxes would be a decrease in state revenue.
- Based on historical state sales tax collections generated within such counties, the Fiscal Review Committee’s staff estimates of sales tax collections, and accounting for the one percent allocation to the General Fund to offset the costs of administering this part, the proposed legislation would result in reallocation of approximately \$25,000,000 in state revenue to the local government, if all eligible localities elected to participate.
- Since the proposed legislation provides significant benefits to local governments, it is reasonably assumed that all such entities will elect to participate. However, the first-year impact (FY21-22) is estimated to be 50 percent of the full year impact, or \$12,500,000.
- Due to the complexity and the number of eligible areas, the Department of Revenue will require an additional Accountant position to accomplish the requirements of the proposed legislation. The recurring increase in state expenditures associated with such position are estimated to be \$55,508 (\$38,472 salary + \$13,136 benefits + \$3,900 other). The one-time increase in state expenditures associated with the position is estimated to be \$5,150.
- The total increase in state expenditures for the Department is estimated to be \$60,668 (\$55,508 + \$5,150) in FY21-22 and \$55,508 in FY22-23 and subsequent years.
- Such expenditures will be funded by the one percent allocation of the amount of the sales and use tax to be distributed pursuant to this act.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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